



Great Kei Local Municipality  
Financial statements  
for the year ended 30 June 2013

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **General Information**

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### **Nature of business and principal activities**

Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

The municipality's operations are governed by:

- Municipal Finance Management act 56 of 2003

- Municipal Structure Act 117 of 1998

- Municipal Systems Act 32 of 2000 and various other acts and regulations

### **Mayoral committee**

Executive Mayor	Tekile N (Speaker)
Chief Whip	Moli N
Councillors	Bangani L Dyani N Jacobs M Labuschagne J Mali M Mevana N Mgema N Mzamo M Ndabambi-Gavumente L Ndoro W Ngabayena N

### **Grading of local authority**

Grade 2

### **Accounting Officer**

Mr. C M Mbekela

### **Registered office**

Komga

### **Business address**

17 Main Street  
Komga  
4950

### **Postal address**

Private Bag X2  
Komga  
4950

### **Bankers**

Standard Bank Limited

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Index**

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The reports and statements set out below comprise the financial statements presented to the Provincial Legislature:

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Changes in Net Assets	6
Statement of Financial Performance	5
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 9
Appropriation Statement	10 - 11
Accounting Policies	12 - 42
Notes to the Financial Statements	43 - 86

### **Abbreviations**

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or losses.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Accounting officer is primarily responsible for the financial affairs of the municipality, reasonable assurance is obtained from the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements.

The financial statements set out on page which have been prepared on the going concern basis, were approved by the Audit Committee on 30 August 2013.

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**Accounting Officer**  
**Mr C M Mbekela**

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Notes	2013	2012
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	131,330,090	131,330,090
Receivables from exchange transactions	9	8,534,415	1,138,761
Receivables from non-exchange transactions	10	211,734	5,060,431
VAT receivable	11	8,438,482	3,564,364
Cash and cash equivalents	12	16,641,430	27,653,994
		<b>165,156,151</b>	<b>168,747,640</b>
<b>Non-Current Assets</b>			
Investment property	4	107,486,712	107,486,712
Property, plant and equipment	5	315,049,707	317,207,936
Intangible assets	6	395,012	250,339
Heritage assets	7		7
		<b>422,931,438</b>	<b>424,944,994</b>
Non-Current Assets		422,931,438	424,944,994
Current Assets		165,156,151	168,747,640
<b>Total Assets</b>		<b>588,087,589</b>	<b>593,692,634</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Long term borrowings	15	333,457	293,414
Finance lease obligation	13	73,492	89,512
Payables from exchange transactions	17	15,235,981	12,565,363
Consumer deposits	18	80,503	80,503
Retirement benefit obligation	7	576,000	401,000
Unspent conditional grants and receipts	14	10,405,409	10,573,330
Provisions	16	229,000	189,000
		<b>26,933,842</b>	<b>24,192,122</b>
<b>Non-Current Liabilities</b>			
Long term borrowings	15	2,320,713	2,652,693
Finance lease obligation	13	223,223	82,718
Retirement benefit obligation	7	4,854,000	3,004,000
Provisions	16	1,726,478	1,710,720
		<b>9,124,414</b>	<b>7,450,131</b>
Non-Current Liabilities		9,124,414	7,450,131
Current Liabilities		26,933,842	24,192,122
<b>Total Liabilities</b>		<b>36,058,256</b>	<b>31,642,253</b>
Assets		588,087,589	593,692,634
Liabilities		(36,058,256)	(31,642,253)
<b>Net Assets</b>		<b>552,029,333</b>	<b>562,050,381</b>
Accumulated surplus		552,029,333	562,050,381

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Notes	2013	2012
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	6,788,106	8,193,127
Rental of facilities and equipment	33	104,333	181,004
Licences and permits		2,169,467	2,397,647
Commissions received		178,466	236,662
Other income	24	2,583,533	988,019
Interest received - investment	29	1,491,176	801,399
<b>Total revenue from exchange transactions</b>		<b>13,315,081</b>	<b>12,797,858</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	12,638,208	12,243,249
<b>Transfer revenue</b>			
Government grants & subsidies	23	49,291,921	34,326,625
Fines		28,550	1,650
<b>Total revenue from non-exchange transactions</b>		<b>61,958,679</b>	<b>46,571,524</b>
<b>Total revenue</b>	20	<b>13,315,081</b>	<b>12,797,858</b>
		<b>61,958,679</b>	<b>46,571,524</b>
		<b>75,273,760</b>	<b>59,369,382</b>
<b>Expenditure</b>			
Personnel	26	(27,213,617)	(19,318,241)
Remuneration of councillors	27	(2,993,552)	(2,847,317)
Administration		(506,861)	(172,961)
Depreciation and amortisation	30	(18,470,784)	(18,949,541)
Finance costs	31	(650,933)	(501,140)
Debt impairment	28	(2,766,946)	(4,330,200)
Repairs and maintenance		(7,106,576)	(1,426,945)
Bulk purchases	34	(6,643,699)	(6,259,354)
General Expenses	25	(18,941,840)	(15,604,603)
<b>Total expenditure</b>		<b>(85,294,808)</b>	<b>(69,410,302)</b>
Total revenue		-	-
Total expenditure		75,273,760	59,369,382
<b>Surplus (deficit) for the year</b>		<b>(85,294,808)</b>	<b>(69,410,302)</b>
		<b>(10,021,048)</b>	<b>(10,040,920)</b>

**Great Kei Local Municipality**  
 Financial Statements for the year ended 30 June 2013

**Statement of Changes in Net Assets**

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2011	295,770,506	295,770,506
Adjustments		
Correction of prior period errors (refer to note 39)	276,320,795	276,320,795
<b>Balance at 01 July 2011 as restated</b>	<b>572,091,301</b>	<b>572,091,301</b>
Changes in net assets		
Deficit for the year	(10,040,920)	(10,040,920)
Total changes	(10,040,920)	(10,040,920)
Opening balance as previously reported	295,326,184	295,326,184
Adjustments		
Correction of errors	266,724,197	266,724,197
<b>Balance at 01 July 2012 as restated</b>	<b>562,050,381</b>	<b>562,050,381</b>
Changes in net assets		
Surplus/(Deficit) for the year	(10,021,048)	(10,021,048)
Total changes	(10,021,048)	(10,021,048)
<b>Balance at 30 June 2013</b>	<b>552,029,333</b>	<b>552,029,333</b>

39

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Notes	2013	2012
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		29,804,565	32,821,541
Grants		49,459,842	24,757,057
Interest income		1,491,176	801,399
Other cash item		-	12,777,742
		<b>80,755,583</b>	<b>71,157,739</b>
<b>Payments</b>			
Employee costs		(30,207,169)	(22,165,558)
Suppliers		(32,895,708)	(23,492,571)
Finance costs		(650,933)	(501,140)
		<b>(63,753,810)</b>	<b>(46,159,269)</b>
Total receipts		80,755,583	71,157,739
Total payments		(63,753,810)	(46,159,269)
<b>Net cash flows from operating activities</b>	35	<b>17,001,773</b>	<b>24,998,470</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(27,603,110)	(13,351,617)
Purchase of intangible assets	6	(243,775)	(236,718)
<b>Net cash flows from investing activities</b>		<b>(27,846,885)</b>	<b>(13,588,335)</b>
<b>Cash flows from financing activities</b>			
Repayment of long term liabilities		(291,937)	(256,911)
Movement in finance lease		124,485	172,230
<b>Net cash flows from financing activities</b>		<b>(167,452)</b>	<b>(84,681)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(11,012,564)</b>	<b>11,325,454</b>
Cash and cash equivalents at the beginning of the year		27,653,994	16,328,540
<b>Cash and cash equivalents at the end of the year</b>	12	<b>16,641,430</b>	<b>27,653,994</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>					
<b>Statement of Financial Performance</b>					
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	21,031,586	4,059,999	<b>25,091,585</b>	6,788,106	<b>(18,303,479)</b> Refer to note 50
Rental of facilities and equipment	229,538	-	<b>229,538</b>	104,333	<b>(125,205)</b>
Licences and permits	412,306	-	<b>412,306</b>	2,169,467	<b>1,757,161</b>
Commissions received	1,054,000	-	<b>1,054,000</b>	178,466	<b>(875,534)</b>
Other income	3,493,113	59,428	<b>3,552,541</b>	2,583,533	<b>(969,008)</b>
Interest received - investment	2,882,173	(119,752)	<b>2,762,421</b>	1,491,176	<b>(1,271,245)</b>
<b>Total revenue from exchange transactions</b>	<b>29,102,716</b>	<b>3,999,675</b>	<b>33,102,391</b>	<b>13,315,081</b>	<b>(19,787,310)</b>
<b>Revenue from non-exchange transactions</b>					
<b>Taxation revenue</b>					
Property rates	13,401,506	2,313,144	<b>15,714,650</b>	12,638,208	<b>(3,076,442)</b>
Government grants & subsidies	49,579,000	11,559,184	<b>61,138,184</b>	49,291,921	<b>(11,846,263)</b>
<b>Transfer revenue</b>					
Fines	56,135	-	<b>56,135</b>	28,550	<b>(27,585)</b>
<b>Total revenue from non-exchange transactions</b>	<b>63,036,641</b>	<b>13,872,328</b>	<b>76,908,969</b>	<b>61,958,679</b>	<b>(14,950,290)</b>
'Total revenue from exchange transactions'	29,102,716	3,999,675	<b>33,102,391</b>	13,315,081	<b>(19,787,310)</b>
'Total revenue from non-exchange transactions'	63,036,641	13,872,328	<b>76,908,969</b>	61,958,679	<b>(14,950,290)</b>
<b>Total revenue</b>	<b>92,139,357</b>	<b>17,872,003</b>	<b>110,011,360</b>	<b>75,273,760</b>	<b>(34,737,600)</b>
<b>Expenditure</b>					
Personnel	(33,568,349)	3,295,693	<b>(30,272,656)</b>	(27,213,617)	<b>3,059,039</b>
Remuneration of councillors	(3,252,243)	200,000	<b>(3,052,243)</b>	(2,993,552)	<b>58,691</b>
Administration	-	-	-	(506,861)	<b>(506,861)</b>
Depreciation and amortisation	-	(15,000,000)	<b>(15,000,000)</b>	(18,470,784)	<b>(3,470,784)</b>
Finance costs	(741,090)	70,000	<b>(671,090)</b>	(650,933)	<b>20,157</b>
Debt impairment	(600,274)	(3,444,025)	<b>(4,044,299)</b>	(2,766,946)	<b>1,277,353</b>
Repairs and maintenance	(7,148,777)	(1,919,130)	<b>(9,067,907)</b>	(7,106,576)	<b>1,961,331</b>
Bulk purchases	(4,306,698)	(3,000,000)	<b>(7,306,698)</b>	(6,643,699)	<b>662,999</b>
Contracted Services	(5,594)	(2,000)	<b>(7,594)</b>	-	<b>7,594</b>
General Expenses	(19,791,622)	(3,205,825)	<b>(22,997,447)</b>	(18,941,840)	<b>4,055,607</b>
<b>Total expenditure</b>	<b>(69,414,647)</b>	<b>(23,005,287)</b>	<b>(92,419,934)</b>	<b>(85,294,808)</b>	<b>7,125,126</b>
<b>Operating deficit</b>	92,139,357	17,872,003	<b>110,011,360</b>	75,273,760	<b>(34,737,600)</b>
Gain on disposal of assets and liabilities	(69,414,647)	(23,005,287)	<b>(92,419,934)</b>	(85,294,808)	<b>7,125,126</b>
	<b>22,724,710</b>	<b>(5,133,284)</b>	<b>17,591,426</b>	<b>(10,021,048)</b>	<b>(27,612,474)</b>
	210,800	-	210,800	-	(210,800)
	22,724,710	(5,133,284)	<b>17,591,426</b>	(10,021,048)	<b>(27,612,474)</b>
	210,800	-	<b>210,800</b>	-	<b>(210,800)</b>

**Great Kei Local Municipality**  
 Financial Statements for the year ended 30 June 2013

**Statement of Comparison of Budget and Actual Amounts**

Budget on Cash Basis

	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>					
<b>Deficit before taxation</b>	<b>22,935,510</b>	<b>(5,133,284)</b>	<b>17,802,226</b>	<b>(10,021,048)</b>	<b>(27,823,274)</b>
Surplus before taxation	22,935,510	(5,133,284)	17,802,226	(10,021,048)	(27,823,274)
Taxation	-	-	-	-	-
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>22,935,510</b>	<b>(5,133,284)</b>	<b>17,802,226</b>	<b>(10,021,048)</b>	<b>(27,823,274)</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2013</b>											
<b>Financial Performance</b>											
Property rates	13,401,506	2,313,144	15,714,650	-		15,714,650	12,638,208		(3,076,442)	80 %	94 %
Service charges	21,031,586	4,059,999	25,091,585	-		25,091,585	6,788,106		(18,303,479)	27 %	32 %
Investment revenue	2,882,173	(119,752)	2,762,421	-		2,762,421	1,491,176		(1,271,245)	54 %	52 %
Transfers recognised - operational	35,153,000	3,300,000	38,453,000	-		38,453,000	34,598,564		(3,854,436)	90 %	98 %
Other own revenue	5,245,092	59,428	5,304,520	-		5,304,520	5,163,349		(141,171)	97 %	98 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>77,713,357</b>	<b>9,612,819</b>	<b>87,326,176</b>	-		<b>87,326,176</b>	<b>60,679,403</b>		<b>(26,646,773)</b>	<b>69 %</b>	<b>78 %</b>
Employee costs	(33,568,349)	3,295,693	(30,272,656)	-	-	(30,272,656)	(27,213,617)	-	3,059,039	90 %	81 %
Remuneration of councillors	(3,252,243)	200,000	(3,052,243)	-	-	(3,052,243)	(2,993,552)	-	58,691	98 %	92 %
Debt impairment	(600,274)	(3,444,025)	(4,044,299)			(4,044,299)	(2,766,946)	-	1,277,353	68 %	461 %
Depreciation and asset impairment	-	(15,000,000)	(15,000,000)			(15,000,000)	(18,470,784)	-	(3,470,784)	123 %	DIV/0 %
Finance charges	(741,090)	70,000	(671,090)	-	-	(671,090)	(650,933)	-	20,157	97 %	88 %
Materials and bulk purchases	(4,306,698)	(3,000,000)	(7,306,698)	-	-	(7,306,698)	(6,643,699)	-	662,999	91 %	154 %
Repairs and maintenance	(7,148,777)	(1,919,130)	(9,067,907)	-	-	(9,067,907)	(7,106,576)	-	1,961,331	78 %	99 %
General expenses	(19,586,416)	(3,207,825)	(22,794,241)	-	-	(22,794,241)	(19,448,701)	-	3,345,540	85 %	99 %
<b>Total expenditure</b>	<b>(69,203,847)</b>	<b>(23,005,287)</b>	<b>(92,209,134)</b>	-	-	<b>(92,209,134)</b>	<b>(85,294,808)</b>	-	<b>6,914,326</b>	<b>93 %</b>	<b>123 %</b>
Total revenue (excluding capital transfers and contributions)	77,713,357	9,612,819	87,326,176	-	-	87,326,176	60,679,403	-	(26,646,773)	69 %	78 %
Total expenditure	(69,203,847)	(23,005,287)	(92,209,134)	-	-	(92,209,134)	(85,294,808)	-	6,914,326	93 %	123 %
<b>Surplus/(Deficit)</b>	<b>8,509,510</b>	<b>(13,392,468)</b>	<b>(4,882,958)</b>	-	-	<b>(4,882,958)</b>	<b>(24,615,405)</b>	-	<b>(19,732,447)</b>	<b>504 %</b>	<b>(289)%</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	14,426,000	8,259,184	22,685,184	-		22,685,184	14,594,357		(8,090,827)	64 %	101 %
Surplus/(Deficit)	8,509,510	(13,392,468)	(4,882,958)	-	-	(4,882,958)	(24,615,405)	-	(19,732,447)	504 %	(289)%
Capital transfers and contributions	14,426,000	8,259,184	22,685,184	-	-	22,685,184	14,594,357	-	(8,090,827)	64 %	101 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>22,935,510</b>	<b>(5,133,284)</b>	<b>17,802,226</b>	-		<b>17,802,226</b>	<b>(10,021,048)</b>		<b>(27,823,274)</b>	<b>(56)%</b>	<b>(44)%</b>
Surplus (Deficit) after capital transfers and contributions	22,935,510	(5,133,284)	17,802,226	-	-	17,802,226	(10,021,048)	-	(27,823,274)	(56)%	(44)%
<b>Surplus/(Deficit) for the year</b>	<b>22,935,510</b>	<b>(5,133,284)</b>	<b>17,802,226</b>	-		<b>17,802,226</b>	<b>(10,021,048)</b>		<b>(27,823,274)</b>	<b>(56)%</b>	<b>(44)%</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	22,935,510	13,912,514	36,848,024	-		36,848,024	27,603,110		(9,244,914)	75 %	120 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	14,426,000	8,259,184	22,685,184	-		22,685,184	14,594,357		(8,090,827)	64 %	101 %
Internally generated funds	8,509,510	5,653,330	14,162,840	-		14,162,840	13,008,753		(1,154,087)	92 %	153 %
<b>Total sources of capital funds</b>	<b>22,935,510</b>	<b>13,912,514</b>	<b>36,848,024</b>	-		<b>36,848,024</b>	<b>27,603,110</b>		<b>(9,244,914)</b>	<b>75 %</b>	<b>120 %</b>

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1. Presentation of Financial Statements**

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below

These accounting policies are consistent with the previous period and GRAP standards, except for the changes set out in note 2 Changes in accounting policy

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

#### **Standards Issued and Effective**

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of cash-generating assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 101 - Agriculture
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

#### **Standards Issued, Future Effective Date - can base accounting policy on, or early adopt**

- GRAP 20 - Related Party Disclosures
- GRAP 25 - Employee Benefits
- GRAP 27 - Agriculture (replace GRAP 101)
- GRAP 31 - Intangible Assets (replace GRAP 102)
- Improvements to Standards of GRAP

#### **Standards Issued, no Effective Date - can base accounting policy on, cannot early adopt**

- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

#### **Standards Issued, no Effective Date - cannot use**

- GRAP 18 - Segmental Reporting

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **Interpretations**

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 - Loyalty Programmes
- IGRAP 7 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

### **1.1 Significant judgements and sources of estimation uncertainty**

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

#### **Trade receivables / loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

#### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.1 Significant judgements and sources of estimation uncertainty (continued)**

#### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

#### **Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.2 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.2 Investment property (continued)**

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### **Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### **1.3 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

## **Accounting Policies**

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### **1.3 Property, plant and equipment (continued)**

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment (Access roads, Community assets and moveable asset additions and prior year moveable assets) is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment (Electricity infrastructure, land and buildings and newly found moveable assets) is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Prior movable assets which management does not have supporting documentation is carried at deemed cost.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Item	Average useful life
Buildings	30 years
Plant and machinery	10 years
Furniture and fittings	7 years
Motor vehicles	5 years
Office equipment	5 years
Infrastructure	
• Tarred roads and paving	30 years
• Access roads	3 years
• Electricity	10 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Halls	30 years
• Parks and gardens	20 - 30 years
Landfill site	186 years
Other equipment	10 years

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
    - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.5 Intangible assets (continued)**

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### **1.6 Heritage assets**

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.6 Heritage assets (continued)**

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Subsequent to measurement, heritage assets are carried at cost less impairment losses.

The Municipality has elected to make use of the transitional provisions as set out in Directive 3, which states that entities are not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage Assets.

The following judgements were made in the assessment of whether assets should be classified as heritage assets:

Management consulted widely to ensure completeness of the list of heritage assets. Through this process, Management considered the cultural, environmental, historical, natural, scientific, technological or artistic significance of list of assets collated and the preservation of such assets for future generations for classification as heritage assets.

All Heritage assets have been recognised and are currently measured at a value of R1.

### **1.7 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### **Classification**

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other payables	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectability of financial assets**

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Derecognition**

##### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

#### **Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.8 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.8 Leases (continued)**

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.9 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.10 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

#### **Composition of estimates of future cash flows**

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### **Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

#### **Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.11 Impairment of non-cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.12 Employee benefits**

This note will be based on IAS 19 to formulate the accounting policy as GRAP 25 has not been adopted.

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.12 Employee benefits (continued)**

#### **Defined benefit plans**

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### **1.13 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

## Accounting Policies

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### 1.13 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Long service provision was calculated using IAS 19.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.13 Provisions and contingencies (continued)**

- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

#### **Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
    - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### **1.14 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.14 Revenue from exchange transactions (continued)**

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### **1.15 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.15 Revenue from non-exchange transactions (continued)**

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.15 Revenue from non-exchange transactions (continued)**

#### **Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.16 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.17 Borrowing costs**

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.18 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.19 Unauthorised expenditure**

Unauthorised expenditure means:

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.19 Unauthorised expenditure (continued)**

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.20 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.21 Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.22 Use of estimates**

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.23 Presentation of currency**

These financial statements are presented in South African Rand.

### **1.24 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of

### **1.25 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### **1.26 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on the same basis as of accounting and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2012 to 30/06/2013.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

### **1.27 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.28 Commitments**

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not been recognised anywhere else in the financial statements.

At the end of each financial period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitment note in the financial statements.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

Figures in Rand

2013

2012

### **2. Changes in accounting policy**

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 21 - Impairment of non cash generating assets
- GRAP 23 - Revenue from non exchange transaction
- GRAP 24 - Presentation of budget information
- GRAP 26 - Impairment of cash generating assets
- GRAP103 - Heritage assets
- GRAP 104 - Financial Instruments

#### **GRAP 104 : Financial Instruments**

During the year, the municipality changed its accounting policy with respect to the treatment of financial instruments. In order to conform with the benchmark treatment in of GRAP104 – Financial Instruments. The municipality no longer discounts its financial assets and financial liabilities except for financial liabilities with extended credit terms.

#### **GRAP 23 - Revenue from non exchange transactions**

During the year, the municipality changed its accounting policy with respect to the treatment of Revenue from non exchange transactions . In order to conform with the benchmark treatment in of GRAP 23 – Revenue from non exchange transactions. The municipality now recognises revenue from property rates as revenue from non exchange transactions and is separately disclosed in the financial statements. The requirements have been applied retrospectively, therefore the prior year figures have bee restated as listed below:

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2012 is as follows:

#### **Statement of financial position**

##### **Trade and other receivables from exchange transactions**

Previously stated	-	6,983,579
Reclassification of property rates receivable to non exchange transactions	-	(5,060,431)
Adjustments- reclassification of other creditors and deposits received from other creditors to receivables - refer to note 41	-	158,064
Adjustment - Prior period error on provision for bad debts - refer to note 40	-	(942,451)
	-	<b>1,138,761</b>

##### **Trade and other receivables from non exchange transactions.**

Reclassification of property rates receivable to non exchange transactions	-	5,060,431
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# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 2. Changes in accounting policy (continued)

#### Statement of Financial Performance

##### Revenue from exchange transactions

Previously stated	-	59,362,043
Reclassification of revenue from property rates to Revenue from non exchange transactions	-	(12,243,249)
Reclassification of revenue from Grants and subsidies to Revenue from non exchange transactions	-	(34,326,625)
Reclassification of revenue from fines to Revenue from non exchange transactions	-	(1,650)
Adjustments -Interest not previously recognised on Pothole Project account. Refer to note 40	-	7,340
	-	<b>12,797,859</b>

##### Revenue from non exchange transactions

Reclassification of property rates to Revenue from non exchange transactions	-	12,243,249
Reclassification of revenue from Grants and subsidies to Revenue from non exchange transactions	-	34,326,625
Reclassification of revenue from fines to Revenue from non exchange transactions	-	1,650
	-	<b>46,571,524</b>

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations**

#### **3.1 Standards and interpretations effective and adopted in the current year**

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### **GRAP 23: Revenue from Non-exchange Transactions**

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue is measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

#### **GRAP 24: Presentation of Budget Information in the Financial Statements**

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

#### **GRAP 103: Heritage Assets**

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

### **GRAP 21: Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

### **GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

### GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

### **3.2 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

#### **GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### **GRAP 20: Related parties**

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### **GRAP 1 (as revised 2012): Presentation of Financial Statements**

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

### **GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors**

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

### **GRAP 9 (as revised 2012): Revenue from Exchange Transactions**

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

### **GRAP 13 (as revised 2012): Leases**

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

#### **GRAP 16 (as revised 2012): Investment Property**

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

#### **GRAP 17 (as revised 2012): Property, Plant and Equipment**

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

#### **GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)**

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

#### **IGRAP16: Intangible assets website costs**

## Notes to the Financial Statements

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### 3. New standards and interpretations (continued)

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annual reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:

- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

### 3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

#### **GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

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### **3. New standards and interpretations (continued)**

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### **IGRAP1 (as revised 2012): Applying the probability test on initial recognition of revenue**

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

- (a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and
- (b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 4. Investment property

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	107,486,712	-	107,486,712	107,486,712	-	107,486,712

#### Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	107,486,712	107,486,712

#### Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	107,486,712	107,486,712

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 5. Property, plant and equipment

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	139,883,259	-	139,883,259	139,883,259	-	139,883,259
Buildings	37,837,294	(13,480,190)	24,357,104	37,837,292	(11,233,490)	26,603,802
Infrastructure	179,577,603	(64,513,317)	115,064,286	171,686,369	(51,557,895)	120,128,474
Community	33,388,197	(13,563,864)	19,824,333	30,659,586	(11,302,363)	19,357,223
Other property, plant and equipment	6,570,112	(3,130,554)	3,439,558	5,203,976	(2,277,885)	2,926,091
Work in progress	11,225,467	-	11,225,467	7,214,696	-	7,214,696
Finance lease assets	503,350	(234,955)	268,395	286,650	(184,930)	101,720
Landfill site asset	998,037	(10,732)	987,305	998,037	(5,366)	992,671
<b>Total</b>	<b>409,983,319</b>	<b>(94,933,612)</b>	<b>315,049,707</b>	<b>393,769,865</b>	<b>(76,561,929)</b>	<b>317,207,936</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfers	Depreciation	Total
Land	139,883,259	-	-	-	139,883,259
Buildings	26,603,802	-	-	(2,246,698)	24,357,104
Infrastructure	120,128,474	7,891,234	-	(12,955,422)	115,064,286
Community	19,357,223	2,728,611	-	(2,261,501)	19,824,333
Other property, plant and equipment	2,926,091	1,366,136	-	(852,669)	3,439,558
Work in progress	7,214,696	15,400,429	(11,389,658)	-	11,225,467
Finance lease assets	101,720	216,700	-	(50,025)	268,395
Landfill site asset	992,671	-	-	(5,366)	987,305
	<b>317,207,936</b>	<b>27,603,110</b>	<b>(11,389,658)</b>	<b>(18,371,681)</b>	<b>315,049,707</b>

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Land	139,883,259	-	-	-	139,883,259
Buildings	28,850,500	-	-	(2,246,698)	26,603,802
Infrastructure	125,310,049	7,715,119	-	(12,896,694)	120,128,474
Community	21,617,696	-	-	(2,260,473)	19,357,223
Other property, plant and equipment	2,897,811	836,869	-	(808,589)	2,926,091
Work in progress	9,028,628	4,782,479	(6,596,411)	-	7,214,696
Finance lease assets	140,756	17,150	-	(56,186)	101,720
Landfill site asset	998,037	-	-	(5,366)	992,671
	<b>328,726,736</b>	<b>13,351,617</b>	<b>(6,596,411)</b>	<b>(18,274,006)</b>	<b>317,207,936</b>

#### Pledged as security

Carrying value of assets pledged as security:

Land and buildings	2,697,279	2,697,279
The property ERF 125 is the municipality's head office. The property is mortgaged to DBSA for a loan advanced to the municipality.		

#### Revaluations

The basis of the revaluation of land and buildings was the Great Kei Valuation Roll of 2009, with final supplementary in 2012 by Clyde Lawrence an Accredited Valuer Registered with the South African Council of Property Valuers of Kula Valuations.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Intangible assets

	2013		2012	
	Cost	Accumulated amortisation and accumulated impairment	Cost	Accumulated amortisation and accumulated impairment
Computer software, other	541,081	(146,069)	395,012	297,306
				(46,967) 250,339

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 6. Intangible assets (continued)

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software, other	250,339	243,775	(99,102)	395,012

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	40,393	236,718	(26,772)	250,339

### 7. Employee benefit obligations

#### Defined benefit plan

#### Post retirement medical aid plan

The municipality provides certain post-retirement healthcare benefits by funding the medical aid of qualifying retired members of the municipality. According to the rules of the medical aid funds , with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these employees.

#### The amounts recognised in the statement of financial position are as follows:

##### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(3,405,000)	(2,472,000)
Current Service Cost	(401,000)	(278,000)
Interest Cost	(270,000)	(212,000)
Net actuarial gains or (losses) not recognised	(1,494,000)	(494,000)
Benefits Paid	140,000	51,000
	<b>(5,430,000)</b>	<b>(3,405,000)</b>
Non-current liabilities	(4,854,000)	(3,004,000)
Current liabilities	(576,000)	(401,000)
	<b>(5,430,000)</b>	<b>(3,405,000)</b>

The fair value of plan assets includes:

#### Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3,405,000	2,472,000
Benefits paid	(140,000)	(51,000)
Net expense recognised in the statement of financial performance	2,165,000	984,000
	<b>5,430,000</b>	<b>3,405,000</b>

#### Net expense recognised in the statement of financial performance

Current service cost	401,000	278,000
Interest cost	270,000	212,000
Actuarial (gains) losses	1,494,000	494,000
	<b>2,165,000</b>	<b>984,000</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>7. Employee benefit obligations (continued)</b>		
<b>Calculation of actuarial gains and losses</b>		

Actuarial (gains) losses – Obligation	1,494,000	494,000
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### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.20 %	7.92 %
Consumer price inflation	6.20 %	5.74 %
Medical aid contribution inflation	8.20 %	7.24 %
Net effective discount rate	0.92 %	0.63 %

### Other assumptions

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result to a 1% increase and 1% decrease in the assumed cost inflation assumption.

	1% decrease R	Base 8.20% R	1% increase R		
Defined benefit obligation	(4,549)	(5,431)	(6,563)	-	-
Service cost ( next financial year)	(458)	(576)	(734)	-	-
Interest Cost (next financial year)	(433)	(519)	(631)	-	-

### 8. Inventories

RDP Houses	131,330,090	131,330,090
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### 9. Receivables from exchange transactions

Trade debtors	25,818,809	23,671,474
Debt impairment allowance	(18,815,171)	(22,791,816)
Sundry debtors	558,166	3,715
Unallocated receipts	415,420	255,388
Salary Suspense Account	557,191	-
	<b>8,534,415</b>	<b>1,138,761</b>

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings listed below:

#### Trade receivables

##### Fair value of trade and other receivables

##### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2013, R 3,775,576 (2012: R 8,866,065) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,517,971	5,657,454
2 months past due	1,207,627	1,276,225
3 months past due	1,049,978	1,932,386

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 9. Receivables from exchange transactions (continued)

#### Trade and other receivables impaired

As of 30 June 2013, trade and other receivables of R 47,404,461 (2012: R 49,340,631) were impaired and provided for.

The amount of the provision was R 43,628,885 as of 30 June 2013 (2012: R 40,474,566).

#### Reconciliation of provision for impairment of trade receivables (exchange and non-exchange)

Opening balance	40,474,566	35,538,138
Provision for impairment	3,154,319	4,936,428
	<b>43,628,885</b>	<b>40,474,566</b>

### 10. Receivables from non-exchange transactions

Assessment rates	25,025,448	22,743,181
Debt impairment	(24,813,714)	(17,682,750)
	<b>211,734</b>	<b>5,060,431</b>

#### Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Receivables from non-exchange transactions

##### Counterparties with external credit rating

A (Government)	46,835,537	42,390,387
B (Business)	523,723	2,251,217
C (Domestic and other)	45,201	4,699,026
	<b>47,404,461</b>	<b>49,340,630</b>

A - The debtors are of good credit quality and no default as expected.

B - The debtors are usually good payers but there is a possibility that the debtor may not be able to pay on time.

C - These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2013, R 2,043,016 (2012: R 3,219,199) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	821,395	2,054,178
2 months past due	653,464	463,387
3 months past due	568,157	701,634

#### Receivables from non-exchange transactions impaired

As of 30 June 2013, other receivables from non-exchange transactions of R 25,651,201 (2012: R 21,556,205) were impaired and provided for.

The amount of the provision was R 43,628,885 as of 30 June 2013 (2012: R 40,474,566).

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 10. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	17,682,750	-
Provision for impairment	7,130,964	17,682,750
	<b>24,813,714</b>	<b>17,682,750</b>

### 11. VAT receivable

VAT	8,438,482	3,564,364
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The municipality is on a cash or payment basis for VAT purposes and is classified as Category C.

### 12. Cash and cash equivalents

Cash and cash equivalents consist of bank balances for current accounts and call deposit accounts:

Short term deposits	14,364,766	21,408,724
Bank Balances	2,276,664	6,245,270
	<b>16,641,430</b>	<b>27,653,994</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
Standard Bank - 280720963	2,132,454	1,521,256	2,266,721	1,962,708	2,662,790	2,352,841
Standard Bank - 285973452	306,064	1,726,925	1,217,122	306,084	1,726,924	1,217,122
Standard Bank - 285946110	7,872	1,855,556	1,822,380	7,872	1,855,555	1,822,380
Standard Bank Limited - 285977334	412,986	1,694,214	1,664,127	412,966	1,694,214	1,664,127
Standard Bank Limited - 388520523-402	1,523	1,509	1,486	1,523	1,509	1,486
Absa Bank Limited - 9079485834	10,812	10,801	10,791	10,810	10,800	10,791
Standard Bank Limited - 388528672-001	-	1,240,952	398,239	-	1,240,952	398,239
Standard Bank Limited - 388528672-004	1,108,647	-	-	1,108,647	-	-
Standard Bank Limited - 388526734-003	426,294	623,512	603,457	426,294	623,512	603,547
Standard Bank Limited - 388527544	32,380	5,170,181	6,125,201	32,380	5,170,181	6,125,201
Standard Bank Limited - 38852386-001	406,987	2,207,478	152,098	406,987	2,207,478	152,098
Absa Bank Limited - 9059902802	767,563	740,908	1,229,151	767,563	740,908	1,229,151
Standard Bank Limited - 388529768-402	11,017,631	8,894,716	2,056	11,017,631	8,894,716	2,056
Standard Bank Limited - 388528672-002	179,965	824,456	715,958	179,965	824,455	715,958
Standard Bank Limited - 388528672-003	-	-	33,543	-	-	33,543
<b>Total</b>	<b>16,811,178</b>	<b>26,512,464</b>	<b>16,242,330</b>	<b>16,641,430</b>	<b>27,653,994</b>	<b>16,328,540</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	141,049	129,064
- in second to fifth year inclusive	356,521	105,863
	<hr/>	<hr/>
less: future finance charges	497,570	234,927
	(200,855)	(62,697)
<b>Present value of minimum lease payments</b>	<hr/>	<hr/>
	<b>296,715</b>	<b>172,230</b>
<b>Present value of minimum lease payments due</b>		
- within one year	73,492	89,512
- in second to fifth year inclusive	223,223	82,718
	<hr/>	<hr/>
<b>Non-current liabilities</b>	<b>296,715</b>	<b>172,230</b>
Current liabilities	223,223	82,718
	73,492	89,512
	<hr/>	<hr/>
	<b>296,715</b>	<b>172,230</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 30%.

Interest rates are fixed at the contract date. Leases escalate at 10% and 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

### Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	766,733	800,883
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For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note .

The fair value of finance lease liabilities approximates their carrying amounts.

## 14. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

<b>Unspent conditional grants and receipts</b>			
Municipal Infrastructure Grant	8,404,973	8,573,330	
Minerals and Energy Grant	2,000,000	2,000,000	
Municipal Systems Infrastructure Grant	436	-	
	<hr/>	<hr/>	<hr/>
<b>10,405,409</b>	<b>10,573,330</b>		

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>15. Long term liabilities</b>		
<b>At amortised cost</b>		
Long term borrowings DBSA Loan bears interest at 13% and is redeemable on 31 March 2019.	2,654,170	2,946,107
<hr/>		
<b>Non-current liabilities</b>		
At amortised cost	2,320,713	2,652,693
<hr/>		
<b>Current liabilities</b>		
At amortised cost	333,457	293,414
<hr/>		

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 16. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Interest cost	Total
Environmental rehabilitation	1,006,720	-	-	8,758	1,015,478
Long service bonus	893,000	221,000	(174,000)	-	940,000
	<b>1,899,720</b>	<b>221,000</b>	<b>(174,000)</b>	<b>8,758</b>	<b>1,955,478</b>

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Interest cost	Total
Environmental rehabilitation	998,037	-	-	8,683	1,006,720
Long service bonus	697,000	286,000	(90,000)	-	893,000
	<b>1,695,037</b>	<b>286,000</b>	<b>(90,000)</b>	<b>8,683</b>	<b>1,899,720</b>
Non-current liabilities				1,726,478	1,710,720
Current liabilities				229,000	189,000
				<b>1,955,478</b>	<b>1,899,720</b>

#### Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. It is calculated as the present value of the future obligation, discounted at 8,5%, over an average period of 187 years.

#### Employee benefit cost provision

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after 5 years (2011: 5 years) of continuous service, and every 5 years thereafter, to 25 years (2011: 25 years) of continuous service. The provision is an estimate of the long service based on historical staff turnover.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

Discount rate	7.50%
Consumer price inflation	6.20%
Normal salary increase rate	8.20%
Net effective discount rate	-0.65%

#### Changes in the present value of the defined benefit obligation are as follows:

Present value of the defined benefit obligation	940,000	893,000
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#### Changes in the present value of the defined benefit obligation are as follows

Opening balance	893,000	697,000
Benefits paid	(174,000)	(90,000)
Net expense recognised in the statement of financial performance	221,000	286,000
	<b>940,000</b>	<b>893,000</b>

#### Net expense recognised in the statement of financial performance

Current service cost	189,000	138,000
Interest cost	75,000	65,000

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>16. Provisions (continued)</b>		
Actuarial (gains) losses	(43,000)	83,000
	<b>221,000</b>	<b>286,000</b>
<b>17. Payables from exchange transactions</b>		
Trade payables	8,241,488	5,802,125
Payments received in advance	4,877,414	2,768,821
Accrued leave pay	1,445,095	1,125,476
Accrued bonuses	617,105	548,443
Deposits received	27,369	13,690
Other payables	-	535,661
Other creditors	27,510	1,771,147
	<b>15,235,981</b>	<b>12,565,363</b>
<b>18. Consumer deposits</b>		
Electricity	80,503	80,503
<b>19. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2013</b>		
<b>Financial assets</b>		
	<b>At amortised cost</b>	<b>Total</b>
Receivables from exchange transactions	8,534,415	8,534,415
Receivables from non-exchange transactions	211,734	211,734
Cash and cash equivalents	16,641,430	16,641,430
	<b>25,387,579</b>	<b>25,387,579</b>
<b>Financial liabilities</b>		
	<b>At amortised cost</b>	<b>Total</b>
Payables from exchange transactions	15,235,982	15,235,982
Unspent conditional grants and receipts	10,405,409	10,405,409
Finance lease obligation	296,715	296,715
Long term borrowings	2,654,170	2,654,170
	<b>28,592,276</b>	<b>28,592,276</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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**2012**

### Financial assets

	At amortised cost	Total
Receivables from exchange transactions	1,138,761	1,138,761
Receivables from non-exchange transactions	5,060,431	5,060,431
Cash and cash equivalents	27,653,994	27,653,994
	<b>33,853,186</b>	<b>33,853,186</b>

### Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	12,565,363	12,565,363
Unspent conditional grants and receipts	10,573,330	10,573,330
Long term borrowings	2,946,107	2,946,107
Finance leases obligation	172,230	172,230
	<b>26,257,030</b>	<b>26,257,030</b>

### 20. Revenue

Service charges	6,788,106	8,193,127
Rental of facilities and equipment	104,333	181,004
Licences and permits	2,169,467	2,397,647
Commissions received	178,466	236,662
Other income	2,583,533	988,019
Interest received - investment	1,491,176	801,399
Property rates	12,638,208	12,243,249
Government grants & subsidies	49,291,921	34,326,625
Fines	28,550	1,650
	<b>75,273,760</b>	<b>59,369,382</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	6,788,106	8,193,127
Rental of facilities and equipment	104,333	181,004
Licences and permits	2,169,467	2,397,647
Commissions received	178,466	236,662
Other income	2,583,533	988,019
Interest received - investment	1,491,176	801,399
	<b>13,315,081</b>	<b>12,797,858</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	12,638,208	12,243,249
<b>Transfer revenue</b>		
Government grants & subsidies	49,291,921	34,326,625
Fines	28,550	1,650
	<b>61,958,679</b>	<b>46,571,524</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 21. Property rates

#### Rates received

Property rates	12,638,208	12,243,249
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#### Valuations

Residential	3,245,236,194	2,168,368,228
Commercial	134,314,600	140,357,600
State	120,243,409	116,488,535
Municipal	291,811,412	123,044,612
Small holdings and farms	844,564,343	997,164,657
Place of Worship	6,246,500	-
	<b>4,642,416,458</b>	<b>3,545,423,632</b>

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

The new general valuation will be implemented on 01 July 2014.

### 22. Service charges

Sale of electricity	3,264,132	4,366,836
Refuse removal	3,523,974	3,826,291
	<b>6,788,106</b>	<b>8,193,127</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	31,398,000	27,660,000
Municipal Systems Improvement Grant	799,564	1,438,256
Financial Management Grant	1,500,000	1,855,606
DBSA Grant	1,000,000	54,093
	<b>34,697,564</b>	<b>31,007,955</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (capital)	14,594,357	3,318,670
	<b>14,594,357</b>	<b>3,318,670</b>
	<b>49,291,921</b>	<b>34,326,625</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	17,893,921	6,666,625
Unconditional grants received	31,398,000	27,660,000
	<b>49,291,921</b>	<b>34,326,625</b>

### Municipal Infrastructure Grant

Balance unspent at beginning of year	8,573,330	-
Current-year receipts	14,426,000	11,892,000
Conditions met - transferred to revenue	(14,594,357)	(3,318,670)
	<b>8,404,973</b>	<b>8,573,330</b>

Conditions still to be met - remain liabilities (see note 14).

The grant is allocated for the construction of infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

### Minerals and Energy Grant

Balance unspent at beginning of year	2,000,000	1,003,762
Current-year receipts	-	4,344,193
Conditions met - transferred to revenue	-	(3,347,955)
	<b>2,000,000</b>	<b>2,000,000</b>

Conditions still to be met - remain liabilities (see note 14).

### Municipal Systems Infrastructure Grant

Current-year receipts	800,000	-
Conditions met - transferred to revenue	(799,564)	-
	<b>436</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

### Financial Management Grant

Current-year receipts	1,500,000	-
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# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 23. Government grants and subsidies (continued)

Conditions met - transferred to revenue

(1,500,000)

-

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Conditions still to be met - remain liabilities (see note 14).

### DBSA Grant

Current-year receipts

1,000,000

-

Conditions met - transferred to revenue

(1,000,000)

-

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Conditions still to be met - remain liabilities (see note 14).

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 24. Other income

Other income	2,256,465	538,597
Building plan fees	186,601	320,035
LG SETA training allowance	124,770	62,806
Clearance fees	15,697	66,581
	<b>2,583,533</b>	<b>988,019</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. General expenses</b>		
Advertising	917,001	553,240
Auditors remuneration	2,232,648	1,720,255
Bank charges	154,277	144,160
Cleaning	43,224	17,406
Consulting and professional fees	1,728,377	2,110,812
Entertainment	200,158	121,618
Insurance	91,349	181,447
Conferences and seminars	82,478	25,249
Lease rentals on operating lease	520,159	781,857
Promotions and sponsorships	30,441	109,196
Magazines, books and periodicals	26,358	-
Motor vehicle expenses	56,704	6,086
Legal expenses	687,103	747,427
Fuel and oil	724,828	503,825
Postage and courier	209,357	155,172
Protective clothing	127,766	88,294
Project maintenance costs	733,752	592,713
Security (Guarding of municipal property)	6,160	7,219
Software expenses	378,515	180,454
Subscription and publication	400,000	200,000
Telephone and fax	1,527,198	1,031,898
Training	252,846	52,993
Travel - local	332,880	123,454
Refuse	77,110	60,364
Electricity	126,877	135,506
Water	1,037,490	906,438
Free basic electricity	132,580	156,021
Valuation costs	1,522,835	544,307
Life saving services	349,184	196,080
Finance Management Grant	1,091,061	1,859,111
Ward Committee expense	100,507	37,142
Ward council expenses	736,356	-
LED Projects	699,560	264,615
Membership fees	173,507	118,145
Other expenses	1,431,194	1,872,099
	<b>18,941,840</b>	<b>15,604,603</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>26. Employee related costs</b>		
Basic	18,338,428	13,496,036
Bonus	1,222,371	671,919
Medical aid - company contributions	940,234	839,709
UIF	160,660	120,765
SDL	244,187	154,279
Other payroll levies	11,305	6,038
Post-employment benefits - Pension	1,752,000	1,150,761
Travel, motor car, accommodation, subsistence and other allowances	1,524,471	806,375
Overtime payments	362,549	333,476
Long-service awards	15,000	-
Acting allowances	59,940	243,066
Housing benefits and allowances	417,472	225,817
Post employment benefit expense - Defined benefit	2,165,000	1,270,000
	<b>27,213,617</b>	<b>19,318,241</b>

Included in compensation for employees above is remuneration of senior management disclosed per individual portfolios below :

### Remuneration of Municipal Manager - CM Mbekela

Annual Remuneration	535,319	517,172
Travel, motor car, accommodation, subsistence and other allowances	233,399	70,605
Contributions to UIF, Medical and Pension Funds	138,513	998
Acting allowance	-	6,855
Backpay	9,208	176,015
	<b>916,439</b>	<b>771,645</b>

### Remuneration of Chief Finance Officer - SP Gwana

Annual Remuneration	415,595	379,364
Travel, motor car, accommodation, subsistence and other allowances	383,443	202,869
Contributions to UIF, Medical and Pension Funds	45,736	1,497
Backpay	6,979	75,790
	<b>851,753</b>	<b>659,520</b>

### Remuneration of Director: Corporate Services - JM Mashiya (February to April 2013)

Annual Remuneration	105,116	-
Car Allowance	69,631	-
Contributions to UIF, Medical and Pension Funds	2,148	-
	<b>176,895</b>	-

### Remuneration of Director: Strategic Services - DM Mbizeni (July 2011 - October 2011)

Annual Remuneration	-	79,000
Travel, motor car, accommodation, subsistence and other allowances	-	80,000
Contributions to UIF, Bargaining Council and Skills Development	-	1,842
	<b>-</b>	<b>160,842</b>

### Remuneration of Director : Corporate Services - NM Mkhohlakali (July 2011 - January 2012)

Annual Remuneration	-	131,061
Travel, motor car, accommodation, subsistence and other allowances	-	148,677
Contributions to UIF, Bargaining Council and Skills Development	-	4,129

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 26. Employee related costs (continued)

Backpay	-	75,790
	-	<b>359,657</b>

#### Remuneration of Director : Technical Services - JF Van Dalen

Annual Remuneration	416,125	-
Travel, motor car, accommodation, subsistence and other allowances	281,322	-
Backpay	6,067	-
Contributions to UIF, Medical and Pension Funds	8,456	-
	<b>711,970</b>	-

#### Remuneration of Director: Strategic Services - L Nonyongo (February - June 2013)

Annual Remuneration	175,193	-
Travel, motor car, accommodation, subsistence and other allowances	117,458	-
Contributions to UIF, Medical and Pension Funds	3,587	-
	<b>296,238</b>	-

#### Remuneration of Director: Corporate Services - M Augustine (March - May 2012)

Annual Remuneration	-	109,567
Contributions to UIF, Medical and Pension Funds	-	1,345
	-	<b>110,912</b>

### 27. Remuneration of Councillors

Executive Major	659,105	600,321
Chief Whip	193,734	185,034
Councillors	1,505,094	1,443,661
Councillors pension contribution	22,122	48,799
Councillors allowances	576,268	521,987
Councillors medical aid	37,229	47,515
	<b>2,993,552</b>	<b>2,847,317</b>

#### In-kind benefits

The Executive Mayor and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor holds the position of the speaker as well.

A breakdown of the above remuneration of councillors is attached.

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>28. Debt impairment</b>		
Debt impairment	2,766,946	<u>4,330,200</u>
<b>29. Investment revenue</b>		
<b>Interest revenue</b>		
Interest from investments	1,482,037	801,385
Bank	9,139	14
	<b>1,491,176</b>	<b>801,399</b>
	-	-
	1,491,176	801,399
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	18,371,682	19,021,871
Intangible assets	99,102	(72,330)
	<b>18,470,784</b>	<b>18,949,541</b>
<b>31. Finance costs</b>		
Non-current borrowings	371,847	405,576
Other interest paid	279,086	95,564
	<b>650,933</b>	<b>501,140</b>
<b>32. Auditors' remuneration</b>		
Fees	2,232,648	<u>1,720,255</u>
<b>33. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	22,432	52,339
<b>Facilities and equipment</b>		
Rental of facilities	81,901	128,665
Premises	22,432	52,339
Garages and parking	-	-
Facilities and equipment	81,901	128,665
	<b>104,333</b>	<b>181,004</b>
<b>34. Bulk purchases</b>		
Electricity	6,643,699	6,115,575
Water	-	143,779
	<b>6,643,699</b>	<b>6,259,354</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>35. Cash generated from operations</b>		
Deficit	(10,021,048)	(10,040,920)
<b>Adjustments for:</b>		
Depreciation and amortisation	18,470,784	18,949,541
Debt impairment	2,766,946	4,330,200
Movements in retirement benefit assets and liabilities	2,025,000	3,405,000
Movements in provisions	55,758	(517,092)
Other non-cash items	-	5,768,204
Transfers of assets	11,389,657	6,596,411
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(7,395,654)	(1,138,762)
Other receivables from non-exchange transactions	4,848,697	(7,441,422)
Debt impairment	(2,766,946)	(4,330,200)
Payables from exchange transactions	2,670,618	5,335,122
VAT	(4,874,118)	(5,487,180)
Unspent conditional grants and receipts	(167,921)	9,569,568
	<b>17,001,773</b>	<b>24,998,470</b>

## 36. Commitments

### Authorised capital expenditure

Already contracted for and approved	2013	2012
• Infrastructure	7,186,976	10,063,768
• Community	2,744,803	1,879,829
• Other	14,685,278	3,695,315
	<b>24,617,057</b>	<b>15,638,912</b>

### Not yet contracted for and authorised by accounting officer

• Infrastructure	-	14,927,000
• Community	-	4,300,000
• Other	-	200,000
	<b>-</b>	<b>19,427,000</b>

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

### Operating leases - as lessee (expense)

Minimum lease payments due	2013	2012
- within one year	578,063	490,388
- in second to fifth year inclusive	201,218	779,282
	<b>779,281</b>	<b>1,269,670</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>37. Contingencies</b>		
<b>Contingent liabilities</b>		
Mr N M Mkhohlakali - Labour dispute. The matter was finalised in August 2013.	100,000	100,000
Mr RF Butler - Labour matter	30,000	30,000
Mr X Nkathazo, Mr M Phangindawo, Mr D Gwabeni and Ms N Sopotela - These are incapacity hearings and investigations and hearings. The matter is in the process of finalisation.	100,000	100,000
Ms NS Nose-Nemutandani Ms M Siko, Mr JJF Vermeulen, Ms S Ncoko, and Mr N Dokwana - Labour matters dealing with the suspension of these officials. Negotiations are in progress.	-	30,000
Great Kei Delegation East coast ratepayers and residence forum - The matter deals with the proposed agreement with the East Coast ratepayers and residents forum.	50,000	50,000
W Kavie - Medical incapacity investigation. The matter is being finalised.	15,000	-
Ms N Blom Jet Vest/ Great Kei Municipality - High court application to set aside deed of sale	100,000	-
Ms M Kema - Collection of costs	1,000,000	-
Ms OS Ngqele - Claim for severance packages	5,000	-
	30,000	-
	<b>1,480,000</b>	<b>370,000</b>

There is uncertainty relating to the timing or amount of these contingent liabilities.

### Offences, Penalties and Forfeiture of the Environment Conservation Act 1989

The municipality does not have a permit for the landfill site. This is in contravention to the above mentioned Act, the municipality may be liable for a fine not exceeding R100,000.

### Contingent assets

<b>Pending litigations and claims</b>		
Revenue Collection - Outstanding rates and taxes	250,000	-
Forwarding letters of demand to debtors		
Lion of Africa - Claim in favour of the municipality	5,000	-
	<b>255,000</b>	<b>-</b>

There is uncertainty relating to the timing or amount of these contingent assets.

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

Figures in Rand

2013

2012

### **38. Related parties**

#### **Relationships**

Accounting Officer

Members of key management

Chris Mbekela

Puleng Gwana

Nicholson Dumisani Mkhohlakali

Councillors

Sharne Muriel Swart

Ngenisile Wellington Tekile

Jacob Coenraad Labuschagne

Nosipho Ngabayena

Supply Chain Management officials

Phindile Patrick Ludidi

Other officials

Khanyisa Simthembile Botha

Zipho Buso

Booi Hinga

Susan Merle Homes

Vuyisiwe Princess Kota

Philiswa Glenrose Kwtani

Bandile Macingwane

Unathi Macingwane

Lizeka Matilda Gxaba

Zelick Mpumelelo Mbulawa

Sazi Mnqeta

Pakamisa Mvandaba

Velisile Comet Ntswabu

Siviwe Piti

Nkululeko Morris Solo

Mncedisi Justice Vimbanzi

Holiday Wana

Vimbani M J

Macingwana B

Refer to accounting officer's report

Key management of the municipality have relationships with businesses as indicated below:

Member in CMM Mind Power

Member in Blackbird Trading 17

Member in Siya Carrier College

Refer to the list of councillors disclosed under general information. Councillors of the municipality have relationships with businesses as indicated below:

Member in Frankies Coffee House

Member in MC Tek Construction

Member in Sweeptec

Member in Thugab Trading

Supply Chain Management officials have relationships with businesses as indicated below:

Member in Milani Mahlubi Trading

Other municipal officials have relationships with businesses as indicated below:

Member in Magqab'akadliwa General Trading

Member in Goldenspot Trading 205

Member in Mzwini Trading Co-operative Limited

Member in Bestdev Project Management, member in Ncedani Abantu Consultants

Member in Ayolwa Trading Enterprise

Blaze of Glory Trading

Member in Badz Driving School, member in Badz Towing and Removals, member in Buffalo City Driving Academy, member in Jalamba Tours, member in Manqoba Restaurant

Member in Cimisbana Trading and Projects

Member in Amyoli Communication and Printing Services, director in Senate Guest House,

Member of Zwelitsha Hotel

Member in Mseke Investments

Member in Imvusa Trading 90, member in Liberty Moon Trading 82, member in Mvandaba Ndobo Security Services, member in Sicwenza Trading, member in Superlane 136,

Member in Dawn Comet Trading

Member in Mthatha Transport and Licensing Consultants

Director in Butsha Bethu Construction

Member in Izivuno Construction and Transport Co-operative Limited, member in Mzwini Trading Co-operative Limited

Member in Mzwini Trading Co-operative Limited

Member in Emonti Security Suppliers

Siyakheka Trading Enterprise

#### **Related party transactions**

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

Figures in Rand

2013

2012

### **39. Prior period errors**

#### **Property, Plant and Equipment**

A large bulk of the infrastructure assets, namely, electricity and roads assets were constructed at much earlier periods and inherited by Great Kei LM and to date the municipality does not have the original supporting invoice evidence to attach the cost for those assets. The non-existence of original cost information required the municipality to fair value these assets. Some of the other road assets, access roads, have been included in the municipality's financials at cost. These assets were constructed in the relevant years as disclosed in the access roads schedule.

The verification undertaken in FY12/13 was undertaken using various cadastre maps and geospatial data in order to identify all roads under the ownership of GKLM, this data was compared to other sources such as the provincial roads and public works database. The number of roads and electrical components identified during the verification was vastly different to the number of items disclosed in last year's books. Also, for the FY12/13 the input costs and assumptions used for the fair valuation of these assets (electrical and roads) were not available. With the support of our specialist engineers we were able to split the road and electrical asset components (i.e. road furniture items, culverts, roads etc.). Various infrastructure guidelines and the CPI index were used to gather the input costs per square meter for each related road and electrical asset component. A detailed report detailing all assumptions made on infrastructure assets and land and buildings was provided to the Municipality and can be found as one of the annexures of this document.

RDP houses were incorrectly classified as property, plant and equipment instead of inventory.

#### **Intangible assets**

Amortisation on intangible asset was incorrectly calculated.

#### **Finance lease**

Finance leases for office equipment were treated as operating leases in prior years and the lease payments expensed. Property plant and equipment has been adjusted to reflect the leased assets and the related liability has been recognised.

#### **Post employment medical benefit liability**

Liabilities for post employment medical benefits were not recognised in the prior year, retrospective adjustment has been done to correct opening balances and raise the liability.

#### **Long service awards provision**

The long service awards provision was understated in the prior year and the value has been adjusted to reflect the actuarial valuation for the prior year.

The correction of the errors results in adjustments as follows:

#### **VAT**

Was was not recognised on debt impairment in the prior year, thus the VAT was adjusted for as a prior period error.

#### **Provision for bad debt**

The provision for bad debt in the prior year was not calculated using the recommended Treasury template, the provision was recalculated using the template and amended as a prior period error.

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 39. Prior period errors (continued)

#### Statement of financial position

##### Property, plant and equipment

Balance as previously reported	-	175,675,274
Work in progress previously disclosed separately	-	7,214,696
Finance leased assets not previously recognised	-	101,720
Reclassification of RDP houses to inventory previously treated as buildings	-	(131,330,090)
Accumulated depreciation adjustment	-	42,466,078
Revaluation adjustment on infrastructure	-	(34,095,098)
Reversal of accumulated depreciation on infrastructure	-	79,846,891
Land and buildings omitted in prior year	-	139,883,259
Buildings	-	37,837,292
Accumulated depreciation on buildings omitted in the prior year	-	(11,233,490)
Correction of revaluation - community assets	-	20,870,567
Accumulated depreciation - Community Assets	-	(9,988,097)
Accumulated Depreciation Adjustment - Other Assets	-	(41,066)
	-	<b>317,207,936</b>

##### Intangible assets

Balance as previously reported	-	178,009
Amortisation previously overstated	-	72,330
	-	<b>250,339</b>

##### Heritage asset

Balance as previously reported	-	-
Adjustment	-	7
	-	<b>7</b>

##### Provision for bad debts

As previously reported	-	39,532,115
Adjustment to trade debtors impairment	-	942,451
	-	<b>40,474,566</b>

##### Cash and cash equivalents

Balance as previously reported	-	27,646,654
Interest not previously recognised on Pothole Project account	-	7,340
	-	<b>27,653,994</b>

##### Finance lease obligation

Balance as previously reported	-	-
Finance lease liability not previously recognised	-	172,230
	-	<b>172,230</b>

##### Long service provisions

Balance as previously reported	-	138,000
Recognition of liability not previously recognised	-	755,000
	-	<b>893,000</b>

##### Post employment benefit obligation

Balance as previously reported	-	-
Recognition of liability not previously recognised	-	3,405,000
	-	<b>3,405,000</b>

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>39. Prior period errors (continued)</b>		
<b>Accumulated surplus</b>	<b>2013</b>	<b>2012</b>
Balance as previously reported	-	295,770,506
Long service awards liability not previously recognised	-	(559,000)
Post employment liability not previously recognised	-	(2,472,000)
Reversal of payments for finance leases previously recognised as operating leases in 2012	-	224,510
Recognition of interest for finance leases previously recognised as operating leases pre 2012	-	(167,621)
Recognition of depreciation on finance leases previously recognised as operating leases pre 2012	-	(128,743)
Accumulated Depreciation - Other Assets	-	(41,066)
Correction of revaluation of Community Assets	-	20,870,567
Accumulated Depreciation -Community Assets	-	(9,988,097)
Reversal of accumulated depreciation on RDP houses	-	42,466,078
Reversal of accumulated depreciation on infrastructure	-	79,846,891
Revaluation of infrastructure	-	(34,095,098)
Adjustments of land and buildings omitted	-	173,188,252
Recognising heritage asset not previously recognised	-	7
Reversal of accumulated depreciation on RDP houses now treated as inventory	-	(2,620,502)
Adjustment to Work In Progress	-	5,432,284
Adjustment of VAT on debt impairment	-	4,364,333
	<b>- 572,091,301</b>	
<b>VAT payable</b>		
Balance as previously reported	-	(1,406,197)
VAT on debt impairment	-	4,970,561
	<b>- 3,564,364</b>	
<b>Inventory</b>		
Reclassification of RDP houses to inventory previously treated as buildings	-	131,330,090

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>39. Prior period errors (continued)</b>		
<b>Statement of Financial Performance</b>		
<b>Impairment on intangible assets</b>		
Balance as previously reported	-	99,101
Adjustment to impairment	-	(72,329)
	<b>-</b>	<b>26,772</b>
<hr/>		
<b>Finance costs</b>		
Balance as previously reported	-	443,236
Interest on finance lease liability	-	249,375
	<b>-</b>	<b>692,611</b>
<hr/>		
<b>Employee related costs</b>		
Balance as previously reported	-	18,189,105
Defined benefit expense	-	933,136
Long service award	-	196,000
	<b>-</b>	<b>19,318,241</b>
<hr/>		
<b>Lease rentals on operating lease</b>		
Balance as previously reported	-	897,427
Lease rental adjustment	-	(115,570)
	<b>-</b>	<b>781,857</b>
<hr/>		
<b>Bad debts</b>		
Balance as previously reported	-	3,993,977
VAT on debt impairment	-	(606,228)
Correction of movement in current year	-	942,451
	<b>-</b>	<b>4,330,200</b>
<hr/>		
<b>Interest received - investments</b>		
Previously stated	-	794,059
Interest not previously recognised on Pothole Project account	-	7,340
	<b>-</b>	<b>801,399</b>
<hr/>		

## 40. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 40. Comparative figures (continued)

**Capital work in progress was presented separately in the prior year and has been reclassified and presented under property, plant and equipment in the current year.**

Property, plant and equipment	-	1,060,943
Work in progress	-	(1,060,943)

**Property rates receivables were classified as receivables from exchange transactions and have been reclassified to receivables from non exchange transactions.**

Receivables from exchange transactions	-	(13,924,193)
Receivables from non exchange transactions	-	13,924,193

**Other financial liabilities and accruals were separately presented in the statement of financial performance in the prior year and have been included as part of trade and other payables in the current year.**

Trade and other payables from exchange transactions	-	3,300,691
Other current financial liabilities	-	(1,626,772)
Accruals	-	(1,673,919)

**Cash and cash equivalents - Other financial assets were previously included in cash and cash equivalents and has been reclassified and presented separately in the current year.**

Cash and cash equivalents	-	(20,399,982)
Other financial assets	-	20,399,982

**Trade and other receivables was presented separately in the prior year and has been reclassified and presented as receivables from non-exchange transactions and receivables from exchange transactions respectively**

Trade and other receivables	-	(6,983,579)
Receivables from non-exchange transactions	-	2,700,000
Receivables from exchange transactions	-	4,283,579

**Accruals were separately in the prior year and have been reclassified and presented as accrued leave pay and accrued bonus respectively**

Accruals	-	(1,563,517)
Accrued leave pay	-	1,125,476
Accrued bonus	-	548,443

**Other income previously included commission received in the prior year. This has been reclassified and presented separately in the current year**

Other income	-	(236,662)
Commission received	-	236,662

**Other creditors previously included deposits, under/ over banking and sundry receipts. This has been classified to non-exchange transactions and receivables in the current year.**

Other creditors	-	(144,374)
Deposits received	-	(13,690)
Non-exchange transactions and receivables	-	158,064

### 41. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the . Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013 2012

### 41. Risk management (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2013	2012
Cash and cash equivalents	16,641,430	27,653,994

### 42. Events after the reporting date

No events having a financial implication and requiring disclosure in the annual financial statements occurred subsequent to 30 June 2013.

### 43. Unauthorised expenditure

Opening balance	6,943,240	1,459,362
Unauthorised expenditure - current year	-	5,483,878
	<b>6,943,240</b>	<b>6,943,240</b>

**Incident** - this is mainly due to inadequate budgeting and monitoring of expenditure.

**Measures to address** - the expenditure was reported to Council on 28 August 2013. A Council committee was appointed to investigate the causes of the expenditure and recoverability thereof.

### 44. Fruitless and wasteful expenditure

Opening balance	6,020,322	5,424,102
Fruitless and wasteful expenditure incurred during the current year	541,958	596,220
	<b>6,562,280</b>	<b>6,020,322</b>

**Incident** - this is mainly due to interest and penalties charged because of late payment of suppliers.

**Measures to address** - the expenditure was reported to Council on 28 August 2013. A Council committee was appointed to investigate the causes of the expenditure and recoverability thereof.

# Great Kei Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>45. Irregular expenditure</b>		
Opening balance	113,626,051	111,527,720
Add: Irregular Expenditure - incurred during the year	888,106	2,052,925
Add: Ex-councillors remuneration overpaid	1,146,737	-
	<b>115,660,894</b>	<b>113,580,645</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	2,034,843	2,052,925
Prior years	113,626,051	111,527,720
	<b>115,660,894</b>	<b>113,580,645</b>
<b>Details of irregular expenditure – current year</b>		
Goods not procured in terms of supply chain management prescripts.	The expenditure was reported to Council on 28 August 2013. A Council committee was appointed to investigate the causes of the expenditure and recoverability thereof.	888,106
Ex-councilors were overpaid on the remuneration	The expenditure was reported to Council on 28 August 2013. A Council committee was appointed to investigate the causes of the expenditure and recoverability thereof.	1,146,737
		<b>2,034,843</b>
<b>46. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	400,000	200,000
Amount paid - current year	(400,000)	(200,000)
	-	-
<b>Audit fees</b>		
Opening balance	1,220,255	-
Current year subscription / fee	2,232,648	1,720,255
Amount paid - current year	(2,122,031)	(500,000)
	<b>1,330,872</b>	<b>1,220,255</b>
<b>PAYE and UIF</b>		
Opening balance	183,603	-
Current year subscription / fee	3,533,122	2,670,542
Amount paid - current year	(3,716,725)	(2,486,939)
	-	<b>183,603</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	222,383	-
Current year subscription / fee	3,555,122	2,548,330
Amount paid - current year	(3,777,505)	(2,325,947)
	-	<b>222,383</b>

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

Figures in Rand

2013

2012

### **46. Additional disclosure in terms of Municipal Finance Management Act (continued)**

#### **VAT**

VAT receivable	8,438,482	3,564,364
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#### **Councillors' arrear consumer accounts**

30 June 2013

No councillors had arrear accounts outstanding for more than 90 days at 30 June 2013.

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Gavumente - Ndabambi Luleka	290	2,648	2,938
Councillor Labuschagne Jacob Coenraardx	2,028	24,072	26,100
	<b>2,318</b>	<b>26,720</b>	<b>29,038</b>

During the 2012 financial year the following Councillors' had arrear accounts outstanding for more than 90 days.

#### **Supply chain management regulations**

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

### **47. Deviation from supply chain management regulations**

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the financial statements.

#### **48. Material losses**

The municipality made a material loss of R 2,932,229 (KHW 2,293,938) that amounts to 29% ( 2012: 28%) on its electricity bulk purchases.

#### **49. Budget differences**

##### **Material differences between budget and actual amounts**

# **Great Kei Local Municipality**

Financial Statements for the year ended 30 June 2013

## **Notes to the Financial Statements**

Figures in Rand

2013

2012

### **Revenue from exchange transactions**

1. Service charges are R18,303,479 below, due to the lower than anticipated electricity consumption during the period.
2. Rental of facilities and equipment is R125,205 below budget due to the lower than anticipated use of the Municipality's facilities during the period.
3. Licenses and permits are R1,757,161 above budget due to inaccurate budgeting by the Municipality.
4. Commission received is R875,534 below budget, due to lower than anticipated motor vehicle registrations during the period, affecting the commission received from the Department of Transport..
5. Other income is below budget by R969,008 due to the revenue item not being appropriately budgeted for.
6. Interest received – investment is over budget by R1,271,245 due to the fact that the Municipality reinvested higher than expected surplus funds.

### **Revenue from non-exchange transactions**

1. Property rates are R3,076,442 below budget due to the budget based on the inaccurate valuation and tariff information.
2. Government grants are R11,846,263 below budget, variance relates to the fact that revenue is recognized is based on grant expenditure for where conditions are met. The budget is largely based on actual grants received.
3. Fines is R27,585 below budget due to the fact that the nature of the revenue item makes it difficult to predict the likelihood of the event, as the Municipality has little control over the fines collected.

### **Expenditure**

1. Personnel costs are R3,059,039 below budget due to the higher than expected variance rate during the period. Also there were vacancies in the Senior Manager positions during the period.
2. Remuneration of Councilors is R58,691 is below budget, but the variance is considered as immaterial.
3. Administration is R506,861 above budget, as there was no amount budgeted for these costs.
4. Depreciation and amortization is R3,470,784, above budget, this is due to assets that were not recognised by the Municipality in the prior year that were added to the fixed asset register. The budget was thus based on low cost base.
5. Finance costs is R20,157 below budget, the difference is considered as immaterial.
6. Debt impairment is R1,277,353 below budget due to VAT levied on debt impairment.
7. Repairs and maintenance is R1,961,331 below budget, this is due to the unpredictable nature of the expense making it difficult to budget for.
8. Bulk purchases are R662, 999 below budget, this is due to the lower than expected usage of electricity during the period.
9. Contracted services are R7,594 below budget, this amount is considered as immaterial.
10. General expenses are R4,055,607 below budget, due to the lower than expected spending during the period.

### **Capital Expenditure**

1. Capital expenditure was R9,244,914 below budget due to delays in the completion of capital projects..